THE RELATION OF THE UNITED STATES FEDERAL TREASURY TO THE MONEY MARKET—DISCUSSION.

EDWARD W. BEMIS: Will Professor Andrew, or anyone else, tell us the objection to the following simple plan of meeting the demand for an emergency circulation during times of panic?

Let the Government offer greenbacks in any amount called for to any individual or corporation or bank which will deposit the proper security of government or municipal bonds. Let the said emergency circulation be subject to such a tax, or interest charge, as one may be pleased to call it, as would induce the return of the money to the Government as soon as the serious emergency is passed. Perhaps an interest charge of 7 per cent., or even of 10 per cent., would be proper. The amount of charge could easily be adjusted by experiment.

Is there any objection to the principle, and would it not accomplish, in times of panic, about as much as the more elaborate plans contemplated? This plan is not so very different from the so-called interconvertible bond schemes urged by Mr. Windom when Secretary of the Treasury, but contemplates a higher rate of interest on the emergency circulation than was provided for by his plan.

Of course this would not go to the root of the question of the causes of industrial depression, but would certainly free such depression from some of its present seriousness.

Undoubtedly one great cause, but by no means the only one, of the present depression has been the readiness of our banks all over the country to abandon their position

as in a measure trustees and protectors of the financial interests of the community in which they are placed. They have been ready to loan at high rates of interest on speculative stocks and even to invest directly in them, instead of taking care of the demand for loans on good commercial paper of the business men in their vicinity.

But I would like to learn, from Professor Andrew or others, what objection there is to the type of emergency circulation just mentioned.

(To the above Professor Andrew replied that if the rate of interest or tax on the emergency circulation were placed low enough to help in the usual Fall scarcity of money when the crops are moved or when the balance of trade seemed to call for it, the issue might also be used to further stock speculation and an injurious expansion of credits and prices would result: but that if the proposition was to have the tax so high that the emergency circulation would only be called for in times of panic, resort to the issue would call attention to the existence of a panic, and would not be made until too late to afford relief.)

Allen R. Foote: One criticism of the Federal Treasury relates to its absorption of funds from the channels of trade and the accumulation and centralization of the same in the Federal Treasury.

Another criticism is the use made of such accumulated funds by an arbitrary return of the same to the channels of trade in spasmodic efforts to relieve the pressure in the money market on the request of banking institutions. Both of these evils may be entirely overcome by the adoption of a Federal depository system similar to that in use in several states.

I have in mind one state which a few years ago had no

depository law for its state funds. At that time the entire amount of the funds owned by the state was supposed to be always in the vaults of the state treasury at the Capitol, entirely withdrawn from the channels of trade and unproductive. At the present time this state has a depository law for state funds and for county funds and muncipal funds, and an effort is about to be made to extend the law to all public funds of every character. The state now has an annual income of about $100,000 from interest upon the deposit of state funds. The rate is a flat rate of 2 per cent.

This system could easily be extended to the requirements of the Federal Government by a law requiring the deposit of all funds collected for the government, from whatever source, including post office receipts, in national banks located in the community where such collections are made. The accounts between collectors and the Federal Treasury could be settled by remittance of certificates of deposit from the banks in which the deposits were made without any transfer of funds.

The banks receiving the deposits should be required to pay 2 per cent. interest on daily balances and hold the deposits subject to check as is customary with commercial accounts.

The disbursements of the Federal Treasury should be made by checks upon the depository banks in the community where payments are due. This system will prevent the withdrawal of funds from the channels of trade; will create an income for the Federal Treasury on account of the use of its balances in the depository banks, and will prevent the centralization of funds in Washington or in the sub-treasuries.

It will also take the Federal Treasury out of the speculative money market, because the Treasury will at

no time possess a large centralized fund that has been withdrawn from the channels of trade which it can return to the channels of trade to relieve pressure in the money market at the request of banking interests.

Under this system, all money collected for the Federal Government will remain in the community where collected, excepting in those cases where the disbursements of the Federal Treasury are less than the amount of collections in a community. In such cases the unused *balances will be transferred directly to other communities* where disbursements exceed the amount of collections. This system will place the deposit accounts of the Federal Government in the same position as the accounts of private business. As the Federal Government inspects all national banks and, practically, through such inspection, certifies to the people that such banks are solvent and trustworthy depositaries for the funds of the people, there is no logical reason why the Federal Government should not use the same banks for its deposits on the same terms it encourages private persons to make their deposits.

William A. Scott: I have been hoping that some patriotic adherent of the present administration would arise and defend the course of the Secretaries of the Treasury who have been so severely criticised by Mr. Andrew. Since no one has done so, I am inclined myself to say a word along this line.

I dislike our independent treasury system quite as much as either of the gentlemen who have spoken, and I agree with them in the opinion that it should be abolished at the earliest possible moment. In discussing this question, however, we should carefully distinguish between the system and the men who have been obliged to administer it. Criticism of the former does not necessarily imply

criticism of the latter. I cannot but feel that, both in his article in the Quarterly Journal of Economics and his address this evening, Mr. Andrew has done injustice to Mr. Shaw and other recent incumbents of the office of Secretary of the Treasury. I think he has exaggerated the effects of their actions on the stock market in New York and the influence which stock market operations have had upon them. A careful analysis of fluctuations in stock exchange values in recent years will show, I think, that the most important of them have been quite independent of the Secretaries of the Treasury, and I doubt if the actions of Secretary Shaw and others have been determined by consideration of the stock market and its needs to the extent suggested by Mr. Andrew.

We must remember that the Secretaries of the Treasury have been confronted by conditions over which they had no control. Since the fall of 1905 the New York money market has been in an almost constant state of stringency, for which the normal operations of the independent treasury system have been partly responsible. What were Secretary Shaw and others to do? Clearly they were under obligation to use the treasury hoards in such a way as in their best judgment would afford the maximum of relief. It is easy to criticise their judgment. No man ought to have been asked to take such responsibility, and no man could have performed such a task without subjecting himself to criticism. But since Congress has persistently refused to correct the evils of our currency system, in my opinion the Secretaries of the Treasury have been justified in going as far as the law would allow, and perhaps at times in stretching the law a little, in order to render all the assistance possible.

DAVID KINLEY: There is one point on which I wish to make my own position perfectly clear. It is this: I do not believe that the actions of the banking interests of the country in the last few years justify us in entrusting to them the reformation of our currency. The recent behavior of certain great banks in New York alone militates against the proposal of the American Bankers' Association for asset currency.